Testimony

of

THE UNITED ILLUMINATING COMPANY

before the

ENERGY AND TECHNOLOGY COMMITTEE

Re

RAISED HOUSE BILL 463

AN ACT CONCERNING FINANCING OF ENERGY EFFICIENCY

AND RENEWABLE ENERGY

LEGISLATIVE OFFICE BUILDING

HARTFORD, CT

March 18, 2010

Good Afternoon, Senator Fonfara, Representative Nardello and members of the Energy and Technology Committee. My name is Patrick McDonnell and I am the Director of Conservation and Load Management for The United Illuminating Company ("UI"). I also represent UI on the Energy Conservation Management Board (ECMB). I am here today to testify on **Raised House Bill 463 – AN ACT CONCERNING FINANCING OF ENERGY EFFICIENCY AND RENEWABLE ENERGY (the bill).**

While there are many items contained in the bill, its key feature is the creation of a new financing program for energy efficiency and renewable energy. For several years UI has provided interest free, on – bill financing for commercial customers under its Small Business energy efficiency program. This program, and the innovative financing mechanism at the core of the program, has become a model program for energy efficiency, especially for commercial and industrial customers with limited access to financing. There has been great interest shown by program developers from many states across the nation, as well as from Canada and Japan, to emulate this successful model as part of their programs. This bill would allow the electric distribution companies to expand upon this model by offering it to other customer classes and provide them the same benefits the small commercial market is currently enjoying.

The bill requires the electric distribution companies(UI and CL&P) to develop a similar, if larger, program using their financial departments in conjunction with in-state banks. Because of the multitude of program features, such as billing, origination, verification,

and other tasks, this effort requires a wide range of skill sets from internal personnel and external program partners. The program experience for the customer will be enhanced if the vendors who install energy efficiency, renewable energy and distributed generation equipment became part of the entire financing program offering. Developing all of the necessary components to make this a model program will require significant coordination between the utilities and the myriad of partners who will be involved. Previous legislative initiatives, such as those requiring the utilities to promote distributed generation in Public Act 05-01, provided incentives for the utilities if they succeeded in achieving the prescribed objectives of the act. This has previously been a successful motivation for the utilities and would be an excellent approach here as well. UI suggests that a $.05 utility incentive for every $1 loaned may be appropriate.

UI supports this bill with the following modifications.

The bill should reflect the following:

- The many intricacies involved in arriving at a program structure that will work effectively, efficiently and within rules and regulations, both federal and state, which govern financing transactions. Program development and implementation (such as periodic verification of compliance with program rules) comes with costs that must be recoverable by the electric distribution companies and such recovery should be provided for in the legislation. In addition, it would be logical for the Department of Public Utility Control (DPUC) to approve a financing program, including the appropriate cost recovery mechanisms.

- The details of the program design, such as interest rates and customer credit qualifications which are called out, but not currently specified in the bill should be left to the detailed development of the program. There will need to be a balance between offering lower interest rate loans and the cost of providing them. There can be many unforeseen challenges in developing an intricate loan/low-interest offering such as this one. Those details are best developed in the actual program plan that is submitted for approval.
- Clarification is needed as to whether the bill's reference to private sector funding opportunities (which suggest program features such as a combination of a loan loss reserve and interest rate buy down) is intended to exclude or include other approaches, such as a revolving loan fund. If the intent of the bill is to allow for the program to be designed by the EDCs and their partners (after examining a number of approaches) then this should be clearly specified in the bill.

UI also adds the following comments to the bill:

1. Utility Incentives. These are an important tool to motivate the utilities and should be considered as part of the bill.

2. Section 2 g (4). This section appears to provide some type of limit on the amount of the assessment to pay for this program. It is unclear how this section would be implemented, and, therefore, it needs clarification.

3. Section 3(a). This section would remove the current cost effectiveness test from the distributed generation (DG) capital grant program incentives. The cost effectiveness test is an important tool to insure that ratepayers receive adequate benefits from any program. It should not be removed from this section. The challenges that the DPUC faced with the current DG program is that legislation that provided for a rebate of all natural gas distribution expenses resulted in a large variation in the actual incentive received from one customer to another. These large and variable customer incentives were included in the overall cost-benefit of the program and had a negative impact on the overall program. If the intention of the bill is to continue to allow this kind of incentive for customer side DG projects, a better approach would be to give control over the natural gas transportation credit to the DPUC. The DPUC could then provide a capital grant for DG units as well as a rebate for all or some of the natural gas costs to insure that the entire program is cost effective.

4. There may be other cost-effective mechanisms to promote investments. UI also notes that, although incentives and financing can be an effective tool to promote investments in DG equipment, other barriers to investment do remain, such as lending limitations that can restrict the amount of capital investments a customer may be able to make. Moreover, if process equipment investments receive a priority for capital expenditures, funding may not be available for DG units. UI suggests that utility owned, cost of service DG units would be

advantageous under some situations, and the bill should allow it provided that there is customer specific tariff and such tariff is approved by the DPUC.

5. Section 5(a). This section would limit the number of Class III RECs that could be generated from the EDCs CLM programs. This would reduce revenues that flow back directly into the CLM fund. This would reduce the additional funding available to programs that benefit both residential and commercial customers. This restriction should be removed or at a minimum increased from the 25% cap included in the bill.

6. Section 6. This section allows net metering for DG units. While including combined heat and power systems in the net metering statutes is potentially beneficial to the specific facility, it would result in yet another subsidy to a type of facility that is already receiving significant incentives and reallocates these new costs to all other electric customers. The Company is concerned with this reallocation of costs. Customers with DG units would generate power that is exported to the grid during low-load periods such as nights and weekends, and then be allowed to net that energy against usage during high load periods such as the middle of a summer day. The value of the power generated during low load periods is much less than the power used during the peak load periods. This cost differential is beneficial to the specific facility, but the cost is born by all other customers on their electric bill. In addition to this subsidy, this feature may also result in customers adding more DG capacity to run on off peak periods to match